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SUBJECT: Egypt: Local Dairy Farmers Demand GOE Price Support

1. (U) Key Points

-- Falling international prices of milk are threatening local milk producers who are demanding action by the government to save the dairy industry.

-- Egypt is a net importer of dairy products with the majority of its imports coming from Australia and New Zealand. The U.S. has increased its dairy exports to Egypt substantially over the last several years and has a large trade surplus with Egypt in dairy.

-- Egypt suffers from numerous problems with its dairy herd including disease and the cost of imported feed, vaccines and animal stock.

-- The Egyptian Government has promised action in terms of both price supports and higher import duties; sources tell us that such government "promises" rarely result in action.

2. (SBU) Comment: We have not seen much real action by the GOE to support dairy farmers. Most milk production comes from small farmers who do not have much political clout, and even large farmers tell us that the GOE is all talk on this issue. If global dairy prices remain low, we expect this problem will worsen, and the GOE may be forced to act to support farmers.

BACKGROUND

3. (U) The Egyptian Association for Dairy Products Producers has called on the GOE to set a new pricing scheme for dairy products and requested financial support similar to that offered to exporters by the Ministry of Trade and Industry. Farmers are demanding help from the government in the form of a subsidy of at least LE1 (US\$.18) per kilo of fresh milk produced. According to Abdul Qader Al Heraki, the chairman of the association, the entire industry, which employs a million workers, will be in jeopardy if the government does not provide targeted subsidies to farmers. Minister of Trade and Industry Rachid Rachid, has said "prices have to be reduced for the consumers, but we need to maintain a fair price for the producers so they would not slaughter the cattle".

4. (U) Egyptians are large consumers of dairy products, although domestic dairy production has not kept up with domestic demand. According to the Central Agency for Public Mobilization and Statistics (CAPMAS) total dairy production for 2007 (the latest year available) was 5.9 million tons. Dairy imports are concentrated in butter, cheese, powdered milk, and whey. Most Egyptian imports are from New Zealand and Australia, though supply issues in those countries have given the U.S. an opportunity to strengthen its position in the market. The USDA reports that in dollar terms, the U.S. more than doubled its sales to Egypt from 2007 to 2008. U.S. dairy imports from Egypt amount to slightly more than one percent of the amount the U.S. Exports to Egypt.

¶15. (U) Egypt's farmers produce small amounts of butter for domestic consumption on a commercial scale, but Egypt imports most of its butter from New Zealand and the Netherlands. According to USDA, poor refrigeration limits local demand for butter. There is no U.S. presence in the Egyptian butter market due to packaging issues, high moisture content, and the color of U.S. butter, which does not appeal to Egyptian consumers.

¶16. (U) Egypt has a small dairy export market. In 2007, Egypt exported approximately 2400 tons of cheese, of which about 15% of cheese exports was sold to the United States. The export market consists primarily of feta-style cheese and a local version of Romano cheese. These exports are made primarily to markets of expatriate Egyptians living in the United States and Arab countries, with small amounts going to South Africa, Greece, Canada and Israel as well. Exports to the U.S. are subject to tariff-rate quotas.

¶17. (U) Egypt's dairy industry has been plagued with problems for several years. Outbreaks in 2004 of both foot and mouth disease and lumpy skin disease, attributed to cattle imports from Ethiopia, decimated the local herd. The industry has yet to recover. Most of the country's livestock herd is dedicated to dairy production. Local dairy breeds are not efficient milk producers, so the dairy industry is reliant on imports which are highly regulated by the government. The GOE currently bans imports of live cattle from most of European countries due to the blue tongue disease outbreak in Europe. The GOE has lifted the ban on some live cattle imports from Canada and the U.S. As a result, and after a ban of nearly ten years on the import of live cattle from the U.S. due to the endemic presence of EBL in parts of the country, trade has been restored after a new protocol for EBL testing was agreed upon. In December 2008, one of the largest dairy farms in Egypt imported 1,900 head of U.S. holsteins. The cattle were sourced from farms in Oregon and

Pennsylvania. Interest in U.S. dairy cattle is increasing among Egyptian dairymen as a result of the success of the first shipment. In addition to imported cattle stock, the dairy industry relies heavily on imports of feed, vaccines, and medicine.

¶18. (U) For the present, however, and in spite of the live animal imports, local production remains costly. As a result, local milk production remains costly. Falling commodity prices have also had a negative impact on dairy farmers and increased demand for imported powdered milk. This dynamic has pitted farm owners against the producers of dairy products. As global commodity prices have fallen, the cost of imported powdered milk has dropped by nearly 50% over the past 12 months. Though prices of local fresh milk have dropped somewhat, fresh milk costs LE2.6 (US\$.46)/kilo and is now priced much higher than imported powdered milk which costs approximately LE1.4 (US\$.25). Total milk production in Egypt is about 3000 tons/day of which 2300 tons are produced by small farms and 700 tons by bigger ones.

¶19. (U) According to press reports, the Ministry of Finance has committed to providing LE150 million (US\$26.8 million) in subsidies for dairy products producers for three months. The decision reportedly followed negotiations between the Ministries of Finance and Agriculture along with dairy product producers. Farmers reportedly have insisted on a supply price of LE2.40 (US\$.43)/kg for milk, while commercial buyers identified a maximum purchase price of LE1.80 (US\$.32)/kg with a government subsidy from the MOF making up the difference. There are also reports that the Ministry of Trade is considering imposing a tariff of 20% on imported milk in an effort to protect local producers.

¶110. (U) Both farmers and dairy producers are skeptical. There have been no official announcements from either the Ministry of Trade or Ministry of Finance outlining concrete plans for subsidies. Mohamed Waaer, farm manager of Dina Farms, Egypt's largest dairy farm, told us this is not the first time the government has made such announcement, but there has never been any follow through, and he didn't expect anything different in the near term.
Scobey